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TAGS: EFIN ECON AR

SUBJECT: FINANCE SECRETARY SEEKS EARLY RESOLUTION WITH  
PARIS CLUB AND NON-SOVEREIGN BOND HOLDOUTS

Classified By: CdA Michael Matera. Reasons 1.4 (b,d)

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Summary  
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¶1. (C) During a September 11 courtesy call, Argentine Finance Secretary Alfredo Mac Laughlin requested Charge's help in arranging a bilat with Treasury Secretary Paulson at the IMF/World Bank meeting in Singapore. The GOA will propose a small IMF quota increase for Mercosur members during the Singapore meeting. Mac Laughlin wants to improve relations with the U.S. and IMF, and as evidence of a new direction explained his strategy to reach deals with 2005 debt restructuring holdouts and with Paris Club creditors. He argued there was a window of opportunity through end-2006 to complete politically viable debt deals, after which 2007 election year politics would intervene. Mac Laughlin claimed the GOA will shortly complete the necessary financing to cover the higher spending envisioned in the 2007 budget, and stated he is reviewing the proposed joint Venezuela-Argentina bond issue. End Summary.

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Request for Bilat with Treasury Secretary Paulson  
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¶2. (C) Charge, EconCouns and Deputy EconCouns met September 11 with Argentine Finance Secretary Alfredo Mac Laughlin to discuss the September 19-20 IMF/World Bank annual meeting in Singapore and review financial issues related to Argentina's external debt and budget financing. Mac Laughlin, in office since December 2005, expressed a desire to break with his predecessor's inconsistent policies and difficult external relationships. He outlined his efforts to date to improve relations with the IMF, U.S., and capital markets writ large, and emphasized the importance he places on keeping the U.S. informed of GOA policies and actions. In this vein, he requested Charge's assistance with arranging a brief meeting with Secretary Paulson so that Economic Minister Felisa Miceli and he can explain Argentina's positions and proposals.

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GOA Position on Broad IMF Reforms  
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¶3. (C) Mac Laughlin emphasized his already excellent personal relationships with IMF officials, including with IMF Managing Director Rodrigo de Rato, whom he had spoken to September 10 to outline the GOA's position on IMF reforms. He said Argentina plans to propose a small quota modification for Mercosur, although he expressed reservations about the chances for success.

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Seeking Deal with Holdouts by Year's End  
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4.(C) Mac Laughlin said he is very conscious of the need to resolve the situation with remaining non-sovereign creditors who refused to accept the 2005 debt restructuring deal (totaling approximately \$20 billion). He noted that this festering issue is complicating his efforts to raise funds through international debt issuances, and has forced the GOA to accept higher issuance rates. He argued there is a window of opportunity through the end of the year for the GOA to achieve viable agreements with remaining creditors, but this window will close as pre-election politics become more prominent beginning in 2007. Postponing a resolution until after the election will further complicate relations with capital markets and investors, so Mac Laughlin said he was personally involved in designing a proposal to settle with the remaining holdouts this fall. He was not certain how President Kirchner will react to the proposal, but he admitted that he has discussed the issue with Kirchner in general terms and that Kirchner understands the need to settle this.

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Plan: Pursue Paris Club Deal Without IMF Program  
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¶5. (C) The same window of opportunity applies to the GOA's defaulted debt with official creditors, and Mac Laughlin said President Kirchner had personally instructed him to pursue an arrangement through the Paris Club to reschedule Argentina's \$6.3 billion official debt. He said the GOA proposal to the Paris Club would necessarily include a grace period to provide needed "breathing room," but no write-downs would be requested and he planned to informally discuss his proposed terms for a deal during the Singapore meetings. In response to Charge's comment that an IMF program is considered a prerequisite for any Paris Club rescheduling, Mac Laughlin claimed that Paris Club rules are not precise on this point and argued that the Paris Club could not impose a condition that Argentina could not fulfill. He noted the moral hazard of seeking a follow-on IMF program, as markets would see it as an indication of economic problems in Argentina. Mac Laughlin also cited the precedent of an IMF "waiver" granted to the IDB to continue its active lending program in Argentina and said that he would seek an appropriate "tailor-made" rescheduling with the Paris Club. Mac Laughlin reiterated his friendship with Rodrigo de Rato and said he would work to maintain and improve relations with the Fund.

Shortly after his return from Singapore, he plans to tour principal Paris Club creditor nations to win their preliminary support for a restructuring plan prior to Argentina's direct approach to the Paris Club Secretariat.

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GOA Financing of 2007 Budget  
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¶7. (C) Mac Laughlin claimed the GOA is well on the way to completing the \$5 billion financing package necessary to cover the higher spending envisioned in the 2007 budget, and

reassured Emboffs that the GOA would maintain sound fiscal policy. He said that maintaining a strong primary budget surplus was "tied to the President's personality," arguing that Kirchner could not live with a deficit.

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GOA-Venezuela Joint Bond  
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¶8. (C) Mac Laughlin has not finished reviewing Venezuela's latest proposal to issue a joint GOA-GOV bond, but said he knows the President views it favorably. He raised the possibility that a "joint and several" obligation bond would spread risk and therefore be cheaper for both Argentina and Venezuela, and noted that he is only willing to pursue it if he can work it through one of the larger underwriting banks like J.P. Morgan that would be fully committed to its issuance.

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Comment  
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¶9. (C) Mac Laughlin's thoughtful and measured approach stands in stark contrast to that of his predecessor and his personal commitment to resolving both Paris Club and non-sovereign holdout claims by 2007 -- before the austral summer vacation season -- is ambitious and certainly welcome.

His proposal to sovereign creditors certainly deserves a hearing, whether or not the Paris Club will consider a rescheduling absent a Fund program. But, given the GoA's forceful "take it or leave it" approach to its 2005 non-sovereign debt exchange exercise, and given that the Kirchner administration is already very much in election mode, the political viability of a near term settlement with holdouts remains questionable. Secretary Mac Laughlin's private sector credentials heading Morgan Grenfell's operations in Argentina have won him considerable credibility within the Buenos Aires banking community. Post strongly recommends Washington act favorably on the GoA's request for a brief meeting between Secretary Mac Laughlin, Economy Minister Miceli and Treasury Secretary Paulson.

MATERA